Mongolia Tax Profile

Produced in conjunction with the KPMG Asia Pacific Tax Centre

March 2018

Table of Contents

1 Corporate Income Tax

1.1 General Information

Corporate Income Tax

Economic entity income tax (including companies, co-operatives, partnerships and other legal entities).

Tax Rate

For income upto Mongolian Tugriks ('MNT') 3 billion, a marginal tax rate of 10% applies. Above MNT 3 billion, a marginal tax rate of 25% applies.

Flat tax rates apply to certain types of income (e.g. dividends, interest and royalties are taxed at a rate of 10%).

Residence

An economic entity is considered to be resident in Mongolia if it is formed under the laws of Mongolia or has its headquarters located in Mongolia.

Basis of Taxation

Taxpayers in Mongolia are separated into two separate classifications, resident and non-resident taxpayers, each with different rates applying to various revenue streams. Economic entities that are resident in Mongolia are taxed on their worldwide income (resident entities are subject to corporate income tax on their net income). Non-resident entities are taxed only on Mongolian-source income (e.g. dividends, interest, royalties and other service revenue).

Tax Losses

Business losses in the infrastructure and mining sectors can be carried forward and deducted from taxable income for 4 to 8 years following the year in which the loss was incurred. A business loss incurred in the infrastructure and mining sectors may be carried forward and deducted to the full extent of the entity's taxable income (i.e. 100% of taxable income) in that future year.

Business losses in other sectors can be carried forward and deducted from taxable income for 2 years following the year in which, the loss was incurred. However, the tax loss utilized may not exceed 50% of the total taxable income in that year.

Tax Consolidation/Group relief

Mongolia has no provisions for tax consolidation or group relief.

Transfer of Shares

Gains made on the sale of shares and securities are included as taxable income.

Income arising from change of ultimate ownership (through sale or transfer of shares) of Mongolian company holds land rights or mineral licenses can be regarded as income from sale of such rights and is subject to 30% of tax.

Stamp duty may also apply to the transfer of shares (see Other Taxes below).

Transfer of Assets

Gains made on the sale of movable property are included as taxable income. Disposals of immovable property are taxed at a rate of 2% of the gross sale proceeds.

Immovable property tax may also apply at a rate of 0.6% to 1% (see Other Taxes below).

CFC Rules

Mongolia does not have CFC rules.

Thin Capitalization

There is a thin capitalization requirement for investor loans provided the loan is advanced by an investor to a direct subsidiary. In particular, if the amount of a loan granted by an investor to a taxpayer exceeds three times the value of capital previously invested by the investor in the taxpayer, the interest paid on the excess amount of the loan is non-deductible. Instead, it is deemed to be a dividend to the investor, subject to taxation.

Where an individual, who resides permanently in Mongolia, controls a taxpayer entity, no deduction is allowed for interest paid in relation to a loan from the individual to its controlled entity. Instead, such interest payment is considered a dividend paid to the individual.

Interest Deductibility Restrictions

In addition to the thin capitalization rules mentioned above, interest payment for a loan borrowed to carry out primary and auxiliary production, work, and services and to purchase property shall be deducted from gross taxable income. In the case of construction of building and installation of equipment are financed by a loan, the interest paid during the construction period shall be added to cost of the construction. The interest paid since the construction is finalized shall be deducted from gross taxable income.

Amalgamations of Companies

A Mongolian company may be established through reorganization of another entity, which may take the form of merger, consolidation, division, separation, or transformation. Consolidation refers to the termination of two or more companies and the transfer of rights, obligations, and liabilities of those predecessors to a newly established company. Merger, on the other hand, involves the termination of one company only.

Earnings Stripping

Mongolia has no specific rules in relation to earnings stripping. There are some rules for transactions between related parties (see Section 2: Transfer Pricing).

General Anti-avoidance

While Mongolia has no general anti-avoidance rules, parties involved in a transaction should have commercial substance in their respective jurisdictions in order to mitigate any potential tax exposure.

Anti-treaty Shopping

None

Other Specific Anti-avoidance Rules

None

Rulings

Tax rulings may be requested from the tax authorities to clarify the application of the law. However, these rulings are not legally binding.

Hybrid Instruments

Mongolia has no specific rules in relation to hybrid instruments.

Hybrid Entities

Mongolia has no specific rules in relation to hybrid entities.

Related Business Factors

The common forms of legal entities used for conducting business in Mongolia are Limited Liability Companies, Joint Stock Companies, Representative Offices, and Permanent Establishments.

There is no initial capital required for establishing a local entity. The minimum capital required for a foreign-invested company is USD 100,000 for each shareholder.

Other local requirements for establishing a legal entity in Mongolia include registering the company name, and the company itself, with the Intellectual Property and State Registration Office.

All types of transaction concluded between entities within territory of Mongolia are required to be in Mongolian tugriks (MNT). However money deposits, loans, its equivalent services, financial derivatives agreements and obligations under such agreements of banks and non-bank financial institutions might be expressed in foreign currencies; herein execution maybe provided in foreign currencies.

1.2 Determination of Taxable Income and Deductible Expenses

1.2.1 *Income*

General

Taxable income in Mongolia is derived by determining gross taxable income and subtracting deductible expenses and tax exempt income. Mongolian's tax principles largely follow the International Financial Reporting Standards (IFRS) accounting principles. Gross taxable income includes income from business activities, income from property (i.e. dividends and royalties), and income from the sale of property. Certain types of income is considered exempt.

Branch Income

Operating through a branch structure is only permitted for Mongolian-resident companies. Any branch income is included in the Mongolian company's income.

Capital Gains

Gains made on the sale of shares and securities, intangible assets and movable property are included in taxable income and taxed at the marginal rate.

Specific types of income and gains of resident entities are subject to tax on a gross basis, including gains from the sale of immovable property (2% tax on gross sale proceeds) and gains from the sale of rights (30% tax on gross sale proceeds).

No capital gain exemption is available at the moment.

Dividend Income

Tax is applicable to dividends received from resident subsidiary companies and non-resident subsidiaries, including deemed dividends. The payer has a withholding, remitting, and reporting obligation for dividends. The withholding tax rate in respect of payments made to resident entities is 10%. No tax exemption or credit is available for dividend income.

Interest Income

Tax is applicable to interest income received at the rate of 10%.

Other Significant Items

In cases where related party transactions lower taxable income because they are made at higher or lower price than market price, the tax authority will challenge the difference between the transaction price and the market price and increase taxable income adjusted to the market price.

1.2.2 *Expenses*

General

Generally, all ordinary and necessary expenses paid or incurred in carrying on any trade or business operations of resident entities are deductible, when supported by relevant documents, all relevant taxes are withheld, and incurred in relation with production of taxable income (except from exempt income). Deductible expenses are only permitted for resident taxpayers.

Minimum Taxation Requirements for the Deductibility of Losses

Generally, business losses can be carried forward for two years following the year in which the loss was incurred. However, entities involved in mining and infrastructure industries can carry forward losses for up to 4 to 8 years following the year in which the loss was incurred.

The amount of loss deductible from taxable income in a given year cannot exceed 50% of the entity's taxable income in the year. The exception to this are the mining and infrastructure industries, in which losses incurred in such sectors can be deducted up to 100% of the entity's taxable income in the year.

Bad Debts

Provisions for bad debts for bank and financial institutions shall be treated as tax deductible expense. However, for other companies bad debts are considered as non-tax deductible expense.

Change of Control Rules

Mongolia does not have change of control rules.

Depreciation/Capital allowance

Fixed assets are depreciated on straight line basis for tax purposes. Building and constructions are depreciated for 40 years, computer its hardware and software for 3 years and vehicle, mechanism and other fixed assets are depreciated for 10 years. Intangible assets with determined useful life shall be amortized during the effective period.

Repair and maintenance expenses of fixed assets are limited to 2%of the book values for buildings and structures and 5% for other fixed assets. The excess of maintenance expenses are capitalized for tax purposes and depreciated over the remaining period of the fixed asset.

Double Deductions

No double deductions are available in Mongolia.

Interest Expenses

Loan interest shall be treated as deductible when interest deductibility requirements are met.

Inventories

Inventory expenses are allowed for deduction.

Other Significant Items

Voluntary insurance expenses i.e. all insurance coverage except health and social insurance is capped at 15% of taxable income. Travel expenses of employees cannot exceed two times the per diem of a civil servant (which is an amount approved by the Government of Mongolia).

1.3 Tax Compliance

Compliance Requirements

Mongolia operates on a self-assessment tax system.

A corporate taxpayer must accurately determine and self-assess its income and tax due based on quarter-to-date and year-to-date tax statements prepared under accrual accounting and make payment to the tax authorities. Corporate taxpayers must file a quarterly tax return by the 20th of month following the quarter-end. The annual tax return is due by 10th February of the following year.

Tax imposed on sales of immovable property must be remitted within 10 working days of the sale to the tax authorities.

Withholding tax applicable to all types of payments made to a non-resident must be remitted within 7 working days to the tax authorities.

Mandatory Electronic Filing

All types of tax returns are submitted electronically.

Requirement to Prepare Tax computation / Return in Functional Currency

Amounts determined for Mongolian Corporate Income Tax Law are to be determined in Mongolian currency MNT (i.e. amounts expressed in a foreign currency must be converted to Mongolian currency). Mongolia has no rules to elect out of the Mongolian currency requirement for tax purposes.

Documents to File with Tax Return

Supporting documents are not required to be filed unless requested by the tax officials.

Language to File Return, Computation and Supporting Documentation(s)

Mongolian

Filing Extension Availability and Details

Mongolia has no filing extension rules. However, amended tax returns may be submitted within the following year.

Payment of Tax

Tax is generally paid in advance by the 25th of each month, and final tax payment deadline is the same as that for reporting (i.e. 10th February). The following are exceptions to CIT payment deadline date:

- Tax imposed on income from the sale of immoveable property must be remitted within 10 working days of the sale by the withholding agent.
- All types of withholding tax imposed on payments made to a non-resident should be remitted within 7 working days.

Interim Tax returns

Quarterly tax returns are due by the 20th of the month following the end of the quarter (calendar quarters).

Penalties for Non-Compliance

Taxpayers who fail to file their tax return within the deadline are to be fined 3 to 4 times the minimum labour wage in Mongolia (i.e. MNT 240,000). Therefore the fine ranges between MNT 720,000 to 960,000 per late return.

Penalties and/or Interest for Underpayment of Taxes

If a corporate taxpayer’s tax payable is paid after the deadline, a 0.1% penalty per day will apply on the outstanding tax liability. There is also a loss for compensation imposed on taxes in arrears and taxes not paid on time. The applicable loss for compensation rate is established by the Government of Mongolia every year.

Statute of Limitation

There is a 5 year limitation period for the imposition of tax in arrears, fines and penalties.

1.4 Financial Statements/Accounting

Details of Local Accountant Requirements

IFRS or IFRS for Small and Medium Enterprises (SMEs) have been theoretically adopted for all private entities, although in practice, many enterprises do not comply due to the cost and difficulty of converting. Listed companies, companies operating in exploration or mining, and companies classified as large by the Ministry of Finance are among those required to apply IFRS in full. On 4 February 2016, the Ministry of Finance issued a regulation stating that companies with total assets greater than MNT 0.5 billion or revenues over MNT 1.5 billion would be classified as large entities required to apply full IFRS for their reporting.

Fiscal Year

The financial year is from 1 January to 31 December.

Periodicity of Local Books to be Closed

No specific requirements are applicable on closing of local books.

Documentation to be Presented with Financial Statements

Balance sheet, income statement, cash flow statement, changes in equity statement, and notes to the accounts.

Financial Statements Language

Mongolian

Retention Period for Statutory Financial Statements / Working papers

Minimum 10 years

Requirements to Retain Physical Copies Locally/Electronically Stored Data to Reside on In-country Server

No specific requirements apply.

Requirements to Prepare Financial Statements in Local Currency

Yes

What GAAP must the Financial Statements be Prepared Under?

International accounting standards.

Prescribed Format and Details for Financial Statements

The financial statements required to be lodged include a balance sheet, income statement, cash flow statement, changes in equity statement, a detailed list of all conflict of interest transactions and notes to the accounts.

Filing Due Date

Financial statements are required to be submitted to the Ministry of Finance, as follows:

- half-year reports are due by 20th of July (applicable to companies applying IFRS)
- annual reports are due by 10th February (applicable to all companies
- annual consolidated reports are due by 1st March (applicable to parent companies with requirement to consolidate).

Filing Format of Financial Statements

Financial statements are required to be submitted electronically through the Ministry of Finance's online system. Paper filings are still accepted in addition to electronic submissions, but cannot be used in place of an electronic submission.

Filing Extension Availability and Details

Amended financial statements can be submitted within next year.

1.5 Incentives

Intellectual Property Incentives

No specific incentives are available.

R&D Incentives

No specific incentives are available.

Special Tax Regimes for Specific Industries or Sectors

As noted above, tax losses in the infrastructure and mining sectors can be carried forward and deducted from taxable income for 4 to 8 income years following the year in which the loss was incurred, and the tax losses in these sectors can be deducted up to the full extent of an entity’s taxable income in that future tax year.

Specific royalty regimes apply to the mining industry (see Other Taxes below).

Other Incentives

A limited number of incentives are available to entities that are operating in the agricultural or manufacturing sectors in Mongolia.

The Investment Law allows stabilization of the tax environment and the possibility of entering into an investment agreement with the Government of Mongolia for qualifying projects. A tax stabilization certificate can be used to stabilize the percentage rates of corporate income tax, customs duty, value-added tax and royalties for up to 27 years. The term of Stabilization Certificate depends upon the amount of investment and the geographic location of the investment.

Non-tax incentives include the availability of investor visas to foreign investors and relaxations relating to land rights.

1.6 International Taxation

Double Taxation Relief

In order to avoid double taxation, Mongolia adopts the credit method. The amount of foreign tax paid is allowed as a credit against the Mongolian tax payable on the same income or capital. A foreign tax credit is permitted only where a Double Tax Agreement (DTA) exists with another jurisdiction. The amount of the tax credit cannot exceed the amount of Mongolian tax payable on the same amount of income.

Foreign-exchange Controls

All business transactions between Mongolian registered entities are required by law to be settled in MNT. However, it is not unusual for amounts to be quoted in other currencies (predominantly USD), particularly in international trade and the tourism industry.

There are no restrictions on the repatriation of capital.

International Withholding Tax Rates

A 20% withholding tax applies to the following income types derived by an economic entity that is a non-resident of Mongolia:

- Dividends paid by an economic entity registered and operating in Mongolia;
- Royalty income, interest income on finance leases, director's fees, management expenses, rent, and income from the use of tangible and intangible assets;
- Loan interest and guarantee payments;
- Income from goods sold, work performed, and services provided in Mongolia; and
- Income earned from sources within Mongolia from services provided, work performed directly or electronically

Interest income which a non-resident earns from a publicly-traded bond issued by a Mongolian commercial bank (traded on both domestic and foreign stock exchanges) is subject to 10% Mongolian withholding tax.

The withholding tax rate may be reduced under a DTA that is in force with the non-resident's country of residence provided that a tax residency certificate can be provided to the payer.

Withholding Tax Rates under the Income Tax Treaties

Mongolia — Treaty Withholding Rates Table				
	Dividends		Interest	Royalties
	Individuals, companies	Qualifying companies		
	(%)	(%)	(%)	(%)
Domestic Rates				
Companies:	20	20	20	20
Individuals:	20	-	20	20
Treaty Rates				
Austria	10	5	10	10
Belarus	10	10	10	10
Belgium	15	5	10	5
Bulgaria	10	10	10	10
Canada	15	5	10	5-10 (1)
China (People's Rep.)	5	5	10	10
Czech Republic	10	10	10	10
France	15	5	10	5
Germany	10	5	10	10
Hungary	15	5	10	5
India	15	15	15	15
Indonesia	10	10	10	10
Kazakhstan	10	10	10	10
Korea (Dem. People's Rep.)	10	10	10	10
Korea (Rep.)	5	5	5	10
Kyrgyzstan	10	10	10	10
Malaysia	10	10	10	10
Poland	10	10	10	5
Russia	10	10	10	-
Singapore	10	5	5-10 (2)	5

Treaty Rates	15	5	15	5
Switzerland	10	10	10	10
Turkey	10	10	10	10
Ukraine	15	5	7-10 (3)	5
United Kingdom	10	10	10	10
Vietnam	10	5	10	10

Notes:

1. a) 5% of the gross amount of the royalties in the case of:

   i) copyright royalties and other like payments in respect of the production or reproduction of any literary, dramatic, musical or other artistic work (but not including royalties in respect of motion picture films nor royalties in respect of works on film or videotape or other means of reproduction for use in connection with television broadcasting); and

   ii) royalties for the use of, or the right to use, computer software or any patent or for information concerning industrial, commercial or scientific experience (but not including any such royalty provided in connection with a rental or franchise agreement);

   b) 10% of the gross amount of the royalties in all other cases.

2. a) 5% of the gross amount of the interest if it is received by a bank or a similar financial institution; and
   b) 10% of the gross amount of the interest in all other cases.

3. If the recipient is the beneficial owner of the interest the tax so charged shall not exceed 10% of the gross amount of the interest.

   Notwithstanding above, where interest is paid to a bank carrying on a bona fide banking business which is a resident of the other Contracting State and is the beneficial owner of the interest, the tax charged in the Contracting State in which the interest arises shall not exceed 7% of the gross amount of the interest.

4. In this regard, the table should be used as a guide and not relied upon in isolation

5. Mongolia's double tax treaties with United Arab Emirates and Kuwait were terminated from 1 January 2015 and 1 April 2015 respectively. Mongolia's double tax treaties with Luxembourg and The Netherlands were terminated from 1 January 2014.

Source: *General Department of Taxation, as at March 2018*

Other Agreements

Mongolia has Investment Protection Agreements with 42 countries.

Income Tax Treaties for the Avoidance of Double Taxation (Negotiated, not yet in force at time of publication)

Italy, Thailand, Latvia

Source: *General Department of Taxation, as at August 2018*

Agreements for the Exchange of Information

None

Indirect Offshore Disposal Rules

None

2 Transfer Pricing

Requirements

The MTA has the power to determine appropriate fair values arising from transactions between related parties based on comparable transactions between non-related parties if it considers that the amounts are above or below fair market value. Mongolia uses a benchmark pricing methodology approved by the Government that follows the OECD approach to transfer pricing.

Entities will be considered related parties where any of the following criteria is met:

- An entity that holds 20% or more of the common stock of the other entity;
- An entity that has the right to receive 20% or more of dividends or distributions from the other entity;
- An entity that has the right to appoint 20% or more of the management of the other entity or otherwise able to determine its policies; or
- An entity that is authorized to directly or indirectly participate in management, control, and property rights of the other entity.

No provision is made for advance pricing agreements.

Country-by-Country Reporting

None at the moment. Mongolia joined the Inclusive Framework of the Base Erosion and Profit Shifting Project (‘BEPS’) of the Organization for Economic Cooperation and Development (‘OECD’) in January 2018.

Master and Local Files Reporting

None at the moment. In January 2018, Mongolia is committed to implementing the BEPS minimum standards.

Common Reporting Standard

None

3 Indirect Tax

Indirect Tax

Mongolia has a value added tax ('VAT') that is imposed on VAT payers (legal entities, individuals, or the permanent establishment of a foreign entity, who sells certain goods, services, or works). VAT is intended to be imposed on the end user.

Structure

VAT applies to all goods that are sold in Mongolia, exported for sale, use, or consumption in a foreign country, or imported into Mongolia for sale, use, or consumption. VAT also applies to all works performed and services rendered in Mongolia. The amount subject to VAT is usually the amount invoiced by the seller. However, the MTA may determine fair market value of the amount to determine VAT where the MTA is of the view the price charged is higher or lower than fair value.

The withholding VAT agent registration threshold is MNT 50 million. Revenue from sales of fixed assets are not counted in determining this threshold. An entity or individual may voluntarily register for VAT when sales revenue from primary production, work or provision of services subject to VAT exceeds MNT 10 million.

Registered end-users may receive 20% VAT refund at the end of the tax year where certain conditions are met (goods, works, or services are purchased from VAT withholding agents, purchases are registered with the tax authorities, purchases are registered with a registration device, etc.). These end users may also receive a reward under a lottery arrangement at the year end.

Standard Rate

The standard VAT rate is 10%.

Exceptions: certain goods and services are zero-rated (e.g. exports) or exempt (e.g. domestically grown food staples).

VAT credits can offset by VAT payables (except for VAT exempt items). There are transactions in which VAT paid is not creditable (e.g. VAT incurred during the exploration stage of mining).

Further Information

For more detailed indirect tax information, refer to:

KPMG's 2017 Asia Pacific Indirect Tax Country Guide

4 Personal Taxation

Income Tax

Top Rate

The personal income tax rate for tax residents is a flat 10% for employment and investment income (e.g. dividends, interest, royalties, income from the sale of shares, etc.). From 1 January 2018, the personal income tax rate for non-residents of Mongolia is a flat 20% for Mongolian sourced-income.

The following types of income are subject to different tax rates:

- The sale of immovable property is subject to 2% tax on the gross sale proceeds
- The sale of intellectual property, income from sports or arts performances and festivals is subject to 5% tax.

Gambling and lottery winnings is subject to 40% tax.

Social Security

All employees working in Mongolia and their respective employers are required to make social health insurance (SHI) contributions to the Mongolian Social Security System. Employee contributions are required to be made at a rate of 10% of gross salary, capped at MNT 264,000 per month. Employers are responsible for withholding each employee's SHI contributions and remitting them to the SHI authority on a monthly basis.

Employer SHI contributions, which are also payable monthly, are to be made at a rate of between 12% and 14% depending on the sector in which the employer operates. There is no capping mechanism for employer contributions.

Personal Allowance

An annual personal tax credit is allowed for individuals to deduct against the tax payable on their annual income provided that an individual's annual income is equal to or less than MNT 36 million (i.e. no credit is available when income is above MNT 36 million per annum). The amount of the annual credit ranges between MNT 60,000 and MNT 160,000 depending on the individual's annual income.

International Social Security Agreements

Hungary, Korea (Rep.), Poland, Turkey

Visa Requirements

Visa requirements vary depending on the individual's country of residence. Mongolia has visa exemption agreements with over 20 countries including Hong Kong, Singapore, Russia, USA, Japan, and Canada. Duration of these visa-free stays range from 14 to 90 days depending on the country.

There are more than 10 classes of visa that may be applied for, each of which depend on the purpose of the individual's visit. A Class B visa is for foreign nationals who visit for a business purpose. A Class HG visa is for foreign nationals who will be employed in Mongolia under an employment contract. There are also visas for spouses of foreign nationals who are residing in Mongolia.

Further Information

For more detailed personal taxation information, refer to:

KPMG's Thinking Beyond Borders

5 Other Taxes

Fringe Benefit Tax

Fringe benefits (e.g. housing benefits, transportation benefits, etc.) are included in gross income of employees. The rate of tax applicable to fringe benefits depends on the employee's residency (10% for residents and 20% for non-residents). Fringe benefit tax is regulated under Mongolia's Personal Income Tax Law.

Stamp Duty

Stamp duty applies to certain services, document issuances, and special permissions provided by the Government. The rates vary accordingly to the type and value of the service or transaction.

Property Tax

Immovable property tax is levied annually at a rate of 0.6% to 1% of the value of the immovable property. The rate varies depending on the location, size, and supply and demand of the property.

Companies must pay immovable property tax in 4 equal instalments by the 15th day of the last month of each quarter.

Individual taxpayers must pay immovable property tax by the 15th of February each year.

Annual immovable property tax returns must be filed by the 10th of February the following year.

Exemptions apply for property used by the state, for agriculture, or as dwelling houses and public buildings. Exemptions may also be available for entities operating in industrial parks.

Inheritance Tax / Gift Tax

There is no inheritance or gift tax.

Mining Tax

Under the Mongolian Mineral Law, royalties are payable on the sale of minerals both within Mongolia and abroad. The amount of royalty payable is based on standard flat-rates and may also include a surtax royalty with percentages applied depending upon the type of commodity and the market price. The Ministry of Mineral Resources and Energy is responsible for determining the reference price to be applied.

Under the Mongolian Petroleum Law, the amount of royalties for petroleum and natural gas is 5% to 15% of the crude oil or natural gas extracted (the exact rate will be set under the Product Sharing Agreement based on negotiation with the Government).

City Tax

There is a capital city tax that applies to entities in the service industry. The tax rate varies between 0 and 0.1% of sales amount or market price on certain types of services (i.e. hotels, hospitality services, restaurants and bars) and goods sold (i.e. alcohol and tobacco). The tax rate varies depending on location of the service provided and goods sold, and density of the population in that location.

6 Trade & Customs

6.1 Customs

Customs Duty

The Customs General Administration of Mongolia is responsible for administering import laws and regulations. The majority of imports do not require a special license or approval, but are required to be declared to Customs, along with a description and value of the goods imported.

Transaction value is the most commonly used method of valuation. Alternative valuation methods include:

- Transaction value for identical merchandise
- Transaction value for similar merchandise
- Deductive method
- Computed method

Based on this information, Customs will determine the amount of tariff to be paid on the import. Tariff rates are established and approved by the Government. Import tariffs can be regular, favoured, or preferential. As such, depending on the country from which the product is imported, a favoured and/or preferential rate may apply.

A regular tariff rate of 5% applies for most goods.

Generally, most exports are not subject to tax (while an export duty exists, it is only applied occasionally). However, exports of certain products are restricted, including:

- Uranium
- Firearms

Certain dangerous and poisonous chemicals.

Excise Duty

Excise duty is imposed on:

- Alcohol
- Tobacco
- Petroleum products
- Passenger vehicles
- Gaming machines and equipment

Key exemptions apply for goods produced domestically for export, duty-free alcohol and tobacco, and snuff tobacco. The excise duty amount for hybrid vehicles is 50% of the normal excise duty impose on imported cars (effective 1 July 2017). The rates depend on the type of product and, in some cases, are higher for imports. Excise duties are set at a flat rate in MNT per unit of product.

6.2 Free Trade Agreements (FTA)

In Force

- Trade and Commercial Agreement, and Foreign Investment Promotion and Protection Agreement with Canada
- Trade agreements with Cuba, Japan, Kuwait, and Vietnam
- Economic and Technical Cooperation Agreement with Egypt

- Trade and Investment Framework Agreement, and Agreement on Transparency in Matters Related to International Trade with the United States
- Economic Cooperation Agreement with Japan

Mongolia has not signed any regional or bilateral free trade agreements.

Concluded / Signed (pending domestic ratification)

None

In Negotiation

None

7 Tax Authority

Tax Authority

Mongolian Tax Authority (MTA)

Link to Mongolian Tax Authority

Tax Audit Activity

Once tax returns are submitted to the MTA, they are reviewed for factors such as internal consistency, calculation errors, timely payments, and compliance. In addition, audits are conducted by the MTA to test the accuracy and completeness of reporting. Usually ten days' notice will be given before an audit commences.

Taxpayers are required to grant tax inspectors full access during these audits and the audit should be witnessed by an independent person. The owner of the property or business should also be present or represented.

There is a 5 year limitation period for the imposition of tax in arrears, fines and penalties.

Appeals

Taxpayers may appeal the conclusions of a tax inspector within 5 years of the tax or penalties being imposed following the audit. Appeals are initially made to the legal department of the MTA. If the issue is unable to be resolved, the appeal will be escalated to the Tax Dispute Settlement Council. If a taxpayer does not agree with the findings of the Tax Dispute Settlement Council, an appeal may be made in the courts.

Tax Governance

The General Law on Taxation provides a number of taxpayer duties that relate to complying with the taxpayers' tax obligations including requirements to accurately maintain records.

Current Topics for Focus by Tax Authorities

Related party transactions and transfer pricing area.

Contact us

Enkhsaikhan Dugarjav
Tax Director
KPMG in Mongolia
T + 976 7012 8101
E eenkhsaikhan@kpmg.com

Naranjargal Ganbat
Tax Manager
KPMG in Mongolia
T + 976 7012 8101
E nnaranjargal@kpmg.com

kpmg.com

This profile was provided by professionals from KPMG's member firm in Mongolia

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.